Agenda Date: 9/20/00

State of New Jersey

Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

ENERGY

I/M/O THE BOARD'S REVIEW)
OF ENERGY AND HOME HEATING)
OIL MARKETS)

ORDER REQUIRING
TARIFF CHANGES

DOCKET NO. GO00020088

(Service List Attached)

BY THE BOARD:

This Board has the opportunity now, before the cold weather season, to require a tariff modification for the interruptible customers of gas distribution companies (GDC), which will have a stabilizing effect on those customers and the GDCs and their other customers. Interruptible customers are customers who derive the benefit of a lower tariff in exchange for agreeing to accept interruption of utility service during periods of peak demand. Plainly, this tariff provides a substantial economic benefit to the interruptible customer. In addition, interruptible customers provide a salutary load balancing benefit to the utilities and their firm customers.

As the competitive natural gas market is further developing due to the availability of choice to all natural gas customers on January 1, 2000, the Board is concerned that gas distribution companies' systems continue to operate reliably. The Board is particularly concerned that higher fuel oil prices this winter might influence some interruptible natural gas customers to disregard interruption notices and continue to burn natural gas. During peak winter load periods, GDC systems are designed to serve only firm customers. Previously, by Order dated June 16, 1999, the Board directed that the Gas Implementation Working Group (Working Group) consider natural gas reliability issues. The Working Group has been considering this subject, but will not have completed its review of the issues in time for the Board to consider and implement most changes for the upcoming heating season.

On March 1, 2000, the Board conducted a legislative-type hearing to better understand the cause of the sharp increase in retail heating oil prices that occurred last winter. At the March 1, 2000 hearing, representatives of the GDCs emphasized that the companies might not be able to physically serve interruptible customers natural gas in cold weather because to do so could result in insufficient fuel to supply their firm customers, including their residential natural gas customers.

While United States Department of Energy (USDOE) regional projections have not yet been prepared for this winter, the USDOE is projecting a 2.5% increase in demand for distillate fuel oil supplies nationally in 2001. The Board's retail heating oil survey conducted on September 18, 2000 showed an average price of $1.446/gal. compared to $.962/gal. from the same survey conducted on September 20, 1999. Last winter, retail prices for heating oil in New Jersey increased approximately 82% between January 3, 2000 and February 7, 2000. Combined with the current state of world crude oil prices, these figures and the possibility for a colder than average winter, or a brief but severe cold spell, as was experienced last year, present the possibility that fuel oil and particularly No. 2 fuel oil prices, could again be a serious concern for consumers this winter.

Although natural gas prices are also higher than normal for this time of year, the Board is concerned that, for economic reasons, some interruptible customers may choose to continue to burn natural gas during a company-initiated interruption, rather than purchase fuel oil on the spot market. It is imperative to the integrity of the natural gas systems that interruptible customers abide by the terms and conditions of interruptible service tariffs. One way to provide added assurance that this will occur is for interruptible gas customers to maintain alternative fuel supplies to have them readily available for use.

The requirement for a fuel alternative is not new. Historically, various tariffs had such a requirement as a specific prerequisite for eligibility as an interruptible customer. While the Board had indicated, by Order dated December 20, 1993 in Docket No. GX93110516, that alternate fuel should no longer be required as a prerequisite to obtaining interruptible gas service, current gas utility tariffs require an alternate fuel certification as either a means for parity pricing or a qualification for preferred pricing. At this time, and due to a change in market conditions, the Board is revising its 1993 ruling on this issue. Moreover, this Order makes uniform and specific this essential requirement for customers receiving the benefit of the interruptible tariff.

The Board is aware that interruptible customers do not all use distillate fuel as their alternate fuel source. The Board believes that any storage requirement should only apply to customers whose alternate fuel source is a distillate fuel (i.e., No. 2 oil, No. 4 oil, jet fuel or kerosene). Distillates are the only fuel oil supply, at this time, which the Board views as affecting natural gas system reliability this winter. Interruptible customers, who agree to shut down operations when interrupted, obviously do not need a separate supply of fuel.

The Board has also considered the unique situation of wholesale generators, i.e., merchant generators and large cogenerators that sell into the electric grid. Fuel supply is the lifeblood of large natural gas users and managing that fuel is a primary responsibility, so the Board considers it likely that these customers would be less likely to not have alternate fuel arrangements. Finally, many wholesale generators have individual gas distribution company contracts, which specify interruption criteria separate and apart from the rest of the interruptible class. In sum, the Board emphasizes that the stabilizing impact of this action is designed to ensure that interruptible customers in fact comply with the very concept of their tariff. We note however, that, while we expect this action will have an ameliorative effect on energy customers, many factors far beyond the jurisdiction of this Board can have a powerful impact on natural gas systems and the cost of energy.

The Board has reviewed: (1) information gathered from various customer groups and segments of the natural gas industry concerning the impact that interruptible customers, who disregard interruption notices, have on the reliability of the natural gas system; and (2) recent actions taken by utility commissions of surrounding states. At this time, we believe that requiring interruptible customers to maintain a seven-day supply of alternative fuel is a reasonable and appropriate response to our gas system reliability concerns. Therefore, the Board FINDS that it is in the best interest of firm natural gas customers and overall gas system reliability for interruptible gas customers to have an on-hand supply of alternative fuel oil. Furthermore, as a step to promote stability and reliability generally and particular in anticipation of the upcoming winter, the Board ORDERS that, by October 10, 2000, the four regulated gas distribution companies file revised tariffs in compliance with the following requirements:

A. As of November 1 of each year, interruptible sales and transportation customers using No. 2 fuel oil, No. 4 fuel oil, jet fuel or kerosene are required to have seven (7) days of alternative fuel either on hand or, if a customer's on-site storage capacity is less than seven (7) days, then full storage capacity plus additional firm contractual supply arrangements to equal seven (7) days. No customer is required to build additional storage.

B. Each GDC must verify compliance by requiring an alternate fuel certification from the customer as a prerequisite to continued eligibility for interruptible service. Each GDC is responsible to directly contact those customers that do not respond by November 1.

C. All customers that use non-distillate fuels as an alternate supply, or will agree to suspend operations during an interruption, are exempt from the alternate fuel requirement, but must file a certification with the GDC, indicating the alternate fuel used or their intention to discontinue operations.

D. Wholesale electric generators, including cogeneration customers with wholesale electric contracts, are exempt from the requirements of this Order.

E. Customers who fail to discontinue natural gas use, consistent with the terms and conditions of the relevant interruptible tariff, shall be charged a penalty equal to:

> 10 times the highest price of the daily ranges that are published in Gas Daily on the table "Gas Price Survey" for delivery in Transco Zone 6 or Texas Eastern Zone M-3. This rate shall not be lower than the maximum penalty charge for unauthorized daily overruns as provided for in the FERC-approved gas tariffs of the interstate pipelines, which deliver gas into New Jersey.

Any penalties collected by the companies pursuant to this provision are to be returned to firm customers, who have been negatively impacted by the interruptible customers refusing to abide by the terms of their tariff. This money shall be returned through the GDCs' levelized gas adjustment clause (LGAC) mechanisms.

In addition, the Board FURTHER DIRECTS that each LDC: (1) no later than September 25 of each year, notify their interruptible customers of these and any other requirements and conditions for remaining on tariffed interruptible service; and (2) by December 1 of each year, file a summary of interruptible customer certifications with the Board.

Although the Board has always given the gas distribution companies considerable latitude in system operations, the Board notes that questions have been posed concerning the criteria for determining that interruptions are in order. This issue has come up over the years in natural gas fuel clause proceedings. However, this issue has not come before the Board for its consideration in the past several years. Therefore, the Board DIRECTS Staff to review natural gas utility interruption practices. Because, due to geographic territories, customer demographics and pipeline availability, interruption practices may need to be GDC-specific, rather than generic, this review should be conducted as part of each GDC's current LGAC proceeding.

The Board emphasizes that natural gas is a volatile commodity and that the natural gas industries themselves are continuing to develop. Therefore, the Board DIRECTS Staff to monitor the impact of this Order and to continue to obtain and analyze additional data during the winter heating season. In particular, the Board DIRECTS Staff to issue a report to the Board by January 1, 2001 detailing its findings on interruptible customer compliance with the storage and firm contract requirements of this Order. The Board further DIRECTS that Staff issue a final report by April 15, 2001 that analyzes the impacts of this Order, the handling and management of interruptible gas customers, the status of home heating oil supplies, and any price increases that occurred during the winter of 2000-2001. As conditions warrant, the Board will revisit and amend the requirements of this Order.

DATED:

BOARD OF PUBLIC UTILITIES
BY:

HERBERT H. TATE
PRESIDENT

CARMEN J. ARMENTI
COMMISSIONER

FREDERICK F. BUTLER
COMMISSIONER

ATTEST:

FRANCES L. SMITH
SECRETARY